United States Cellular Corporation Ex Parte Presentation

Universal Service Reform

WC Docket No. 05-337

U.S. Cellular

- U.S. Cellular provides Personal Communications Service and Cellular Radiotelephone Service in 44 Metropolitan Statistical Areas , 100 Rural Service Areas, one Major Trading Area, and numerous Basic Trading Areas throughout the Nation.

- U.S. Cellular is an eligible telecommunications carrier (“ETC”) in Washington, Iowa, Wisconsin, Kansas, Oregon, Maine, Missouri, Nebraska, Oklahoma, West Virginia, Illinois, New Hampshire, North Carolina, Virginia, Tennessee, and New York.

The FCC's Proposal to Cut IAS and ICLS Support Will Significantly Harm Rural Areas

- Combined, IAS and ICLS total approximately $740 million of annual support to CETCs nationally, over half of the total available.
- The FCC's proposal to cut IAS/ICLS support to CETCs will reduce support to individual states by as much as 98%.
- CETCs, which are required to invest these funds into their networks, will cut investments in those states by a corresponding amount.
- The cost savings to consumers of these cuts is approximately 17 cents per month, or $2 a year.

Proposals to Cut IAS and ICLS Support Will Significantly Harm Rural Areas (cont'd)

Annual Loss of IAS/ICLS Support to CETCs in Selected Rural States:

• Virginia:	98% - $14 M
• New Hampshire:	88% - $166,788*
• New York:	87% - $2.5 M*
• North Carolina:	86% - $8 M*
• Illinois:	75% - $23 M
• Washington:	68% - $31 M
• Oregon:	58% - $13 M
• Wisconsin:	56% - $33 M
• Iowa:	54% - $34 M
• Alaska:	52% - $37 M
• Oklahoma:	46% - $14 M
• Maine:	44% - $5 M
• Nebraska:	39% - $22 M
• West Virginia:	38% - $22 M
• Missouri:	38% - $13 M
• South Dakota:	37% - $15 M
• Kansas:	30% - $25 M
• Mississippi:	12% - $20 M

* Does not include recent ETC designations.

Statements that IAS and ICLS are merely "access replacement" are misleading.

- The FCC has specifically identified IAS and ICLS as high-cost universal service support.
- Pursuant to Sec. 254(e), the FCC has removed support from implicit carrier rates and placed it in explicit and portable support mechanisms.
- Two purposes: make wireline carriers more competitive because access rates can fall, while also making explicit support available and portable to competitors that invest in high-cost areas.

With respect to IAS, the Commission has stated:

> "By simultaneously removing implicit subsidies from the interstate access charge system and replacing them with a new interstate access universal service support mechanism that supplies portable support to competitors, this Order allows us to provide more equal footing for competitors in both the local and long-distance markets, while still keeping rates in higher cost areas affordable and reasonably comparable with those in lower cost areas."

Sixth Order, 15 FCC Rcd at 12,964.

With respect to ICLS, the Commission has stated:

"Our actions are consistent with prior Commission actions to foster competition and efficient pricing in the market for interstate access service, and to create universal service mechanisms that will be secure in an increasingly competitive environment. ***By simultaneously removing implicit support from the rate structure and replacing it with explicit, portable support, this Order will provide a more equal footing for competitors in the local exchange and long distance markets, while ensuring that consumers in all areas of the country, especially those living in high-cost, rural areas, have access to telecommunications services at affordable and reasonably comparable rates.*** This Order is also tailored to the needs of small and mid-sized local telephone companies serving rural and high-cost areas, and will help provide certainty and stability for rate-of-return carriers , encourage investment in rural America, and provide important consumer benefits."

MAG Order, 16 FCC Rcd at 19,617 (emphasis added).

The Fifth Circuit has Affirmed the FCC's Elimination of Implicit Subsidies

Second, **the old regime of *implicit* subsidies--that is, "the manipulation of rates for some customers to subsidize more affordable rates for others"--must be phased out and replaced with *explicit* universal service subsidies--government grants that cause no distortion to market prices--because a competitive market can bear only the latter.**

Cutting IAS/ICLS to CETCs will harm consumers and distort the marketplace for telephone service.

- IAS is disaggregated into cost zones, targeting support to highest-cost areas.

- IAS fund was limited to $650 million and made fully portable – the FCC intended for wireline carriers to lose support when newcomers enter.

- Significant evidence has been provided of new infrastructure construction in rural areas by CETCs that will be reduced if funding is cut.

- No carrier, including wireless, could offer high-quality service to rural consumers at rates comparable to those in urban areas without support.

Three Critical Reforms to Control Fund Growth and Make Room for Broadband and Mobility:

- Support Must be Accurately Targeted to Areas that Are "High-Cost".
- Support Must Be Made "Fully Portable". The Carrier That Gets the Customer Gets the Support.
- The "cost-plus" mechanism must be replaced with an efficient mechanism that works in increasingly competitive markets.

Portability: Support is provided to the carrier that wins the customer and is removed from the carrier that loses the customer:

> **To ensure competitive neutrality, we believe that a competitor that wins a high-cost customer from an incumbent LEC should be entitled to the same amount of support that the incumbent would have received for the line, including any interim hold-harmless amount.** While hold-harmless amounts do not necessarily reflect the forward- looking cost of serving customers in a particular area, we believe this concern is outweighed by the competitive harm that could be caused by providing unequal support amounts to incumbents and competitors. **Unequal federal funding could discourage competitive entry in high-cost areas and stifle a competitor's ability to provide service at rates competitive to those of the incumbent.**

Federal-State Joint Board on Universal Service, Ninth Report & Order and Eighteenth Order on Reconsideration, 14 FCC Rcd 20,432, 20,480 (1999).

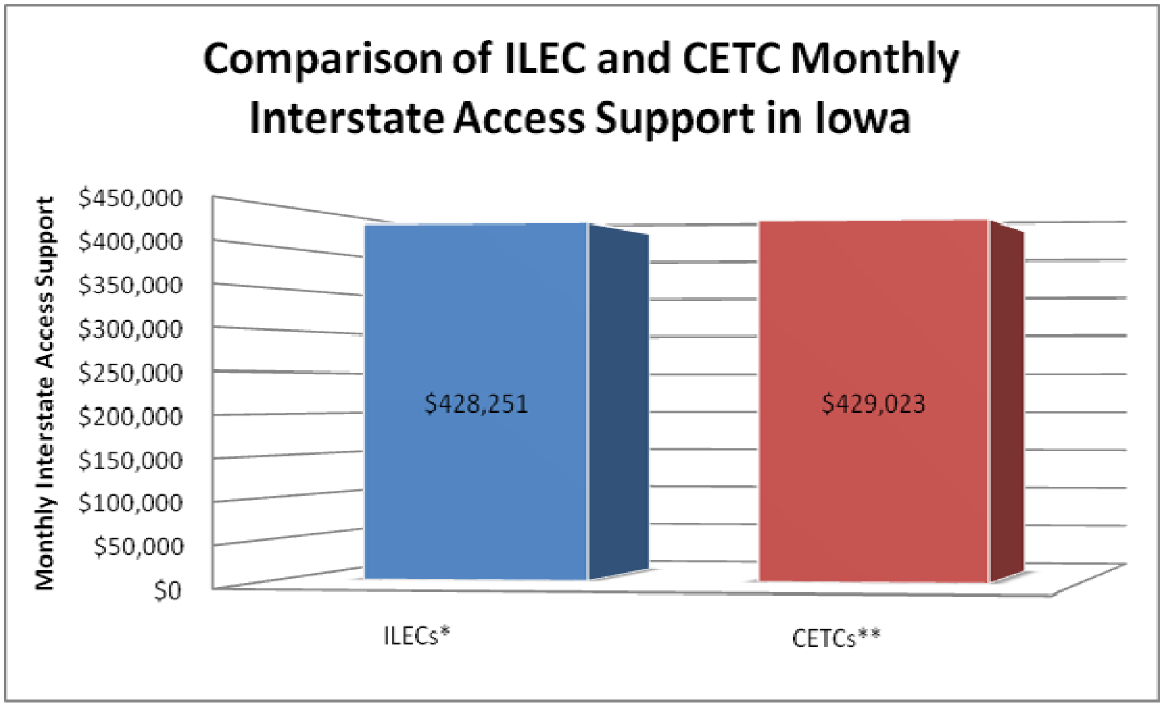
Federal-State Joint Board On Universal Service Report and Order, 12 FCC Rcd. 8776, 8933 (1997):

We are not persuaded by commenters that assert that providing support to CLECs based on the incumbents' embedded costs gives preferential treatment to competitors and is thus contrary to the Act and the principle of competitive neutrality. While the CLEC may have costs different from the ILEC, the CLEC must also comply with Section 254(e), which provides that "[a] carrier that receives such support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is intended." Furthermore, because a competing eligible telecommunications carrier must provide service and advertise its service throughout the entire service area, consistent with section 254(e), the CLEC cannot profit by limiting service to low cost areas. **If the CLEC can serve the customer's line at a much lower cost than the incumbent, this may indicate a less than efficient ILEC. The presence of a more efficient competitor will require that ILEC to increase its efficiency or lose customers.** State members of the Joint Board concur with our determinations regarding the portability of support.

The Fifth Circuit has affirmed that portability is required by statute.

***"Finally,* the program must treat all market participants equally--for example, subsidies must be portable--so that the market, and not local or federal government regulators, determines who shall compete for and deliver services to customers. Again, this principle is made necessary not only by the economic realities of competitive markets but also by statute."**

Comparison of thirty-eight CETCs serving an area served by five ILECs

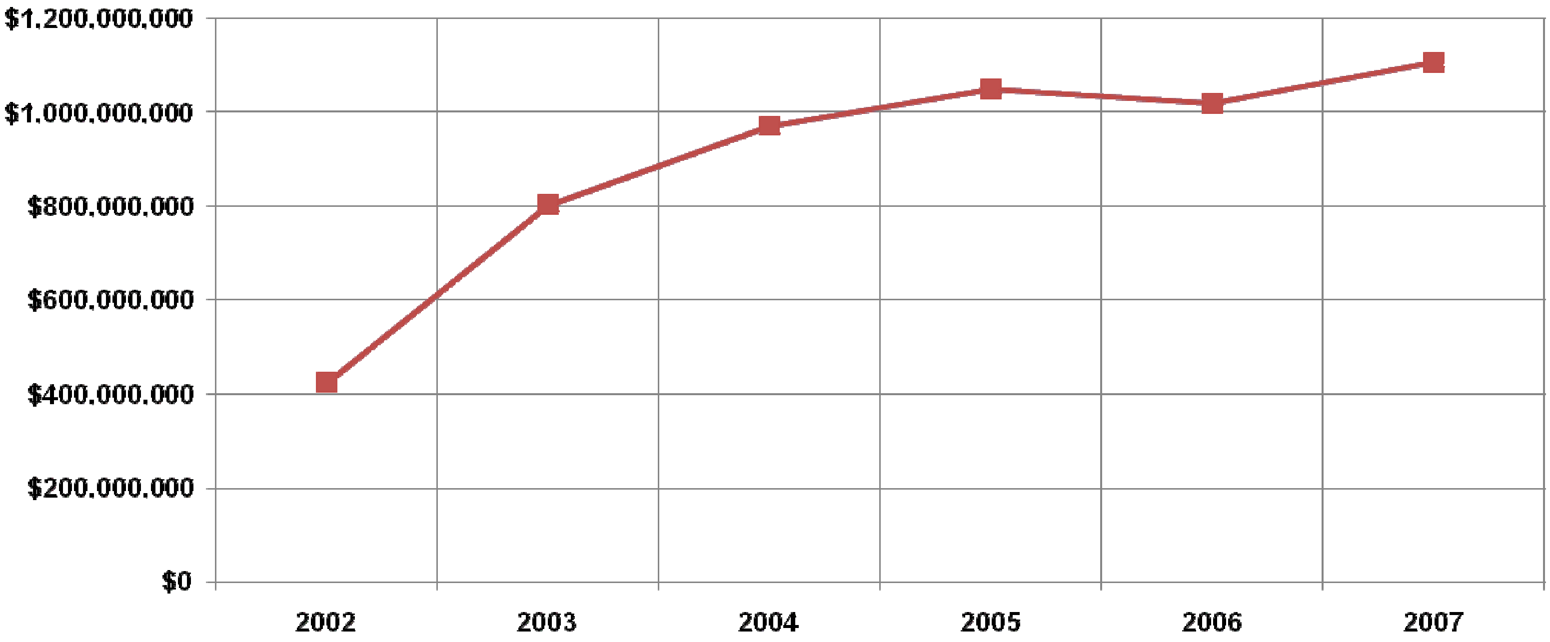


- Five ILECs in Iowa receive Interstate Access Support (IAS). Access support shown includes rural and non-rural ILECs.

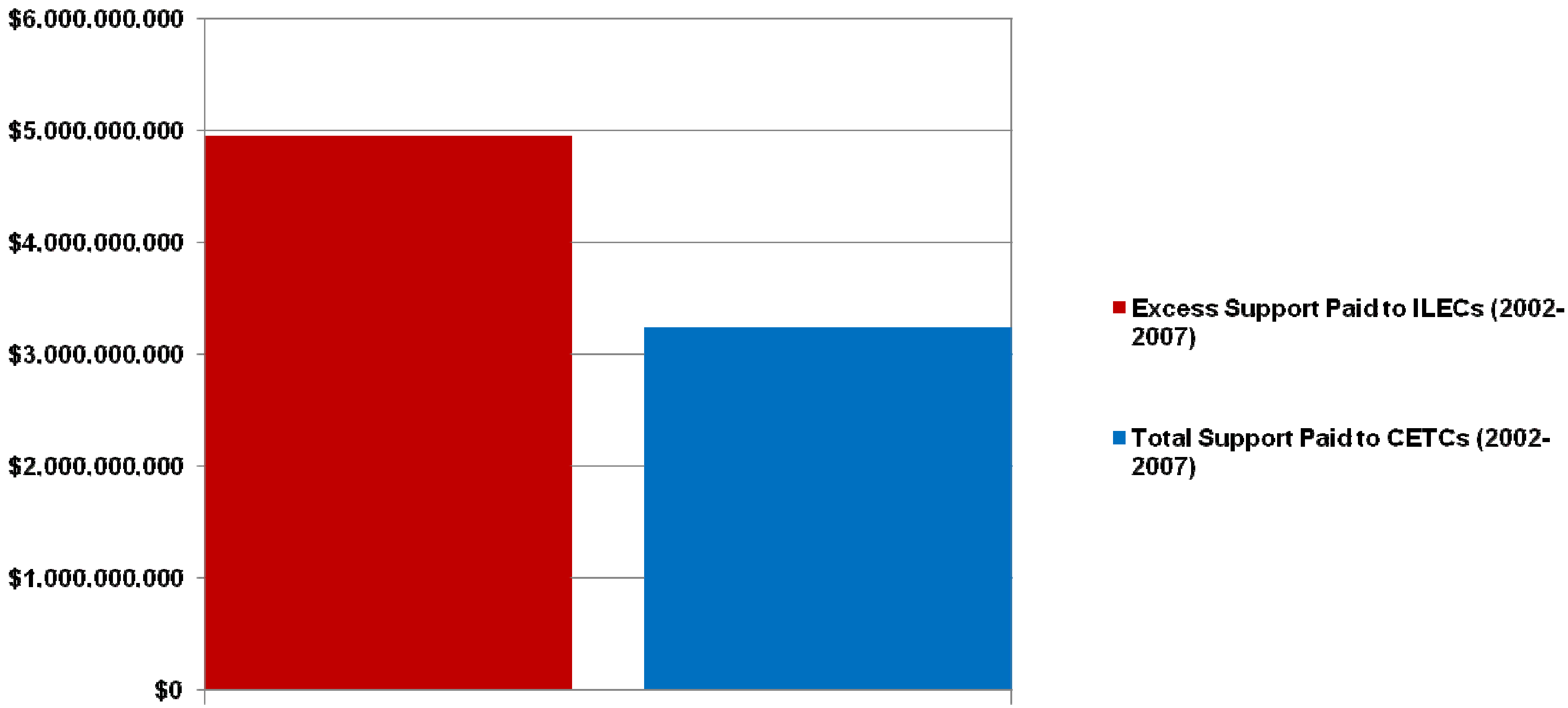
** Thirty-eight CETCs in Iowa receive IAS in areas served by the five ILECs.

Source: Universal Service Administrative Company, Second Quarter 2008 Projections (Appendix HC12).

Amount of Potential Savings if ILEC Support Declined at Same Rate as Loop Counts



NOTE: Loop counts are as of June of each year, except for 2007 (December 2006 figures used)


$6,000,000,000
$5,000,000,000
$4,000,000,000
$3,000,000,000
$2,000,000,000
$1,000,000,000
$0
Excess Support Paid to ILECs (2002-2007)
Total Support Paid to CETCs (2002-2007)

The WiCAC Proposal is a Non-Starter

- Created by a landline consulting firm, WiCAC has been “fixed” to ensure that wireless carriers draw little or no support.

- Taken to its logical conclusion, if WiCAC produces lower costs for wireless, what is public policy justification for continuing to support the least efficient provider of the services?

- The FCC has not properly considered a cost model, asked the joint board to consider alternatives, conducted workshops, and develop useful data.

The WiCAC Proposal is a Non-Starter (cont'd)

- Support provided based on ILEC benchmark – effectively paying wireless carriers on wireline costs – exactly what ILECs have argued against for ten years.
- Support is artificially limited to "voice-only" lines.
- The cost per line calculations artificially limit support to wireless.
- The methodology is administratively complex, invites carriers to inflate costs to gain more support, and cements in place everything that is wrong about the current rate-of-return/modified embedded cost methodology.

Reverse Auction Challenges

- Selecting one auction winner distorts the marketplace by erecting a barrier to competition. Once an auction closes, newcomers that better serve consumers would have to be more efficient than the subsidized carrier by the amount of support in order to compete.

- This is precisely the problem that the 1996 Act intended to resolve – regulations favoring dominant incumbent carriers.

- A single winner auction would result in incompatible technologies, oftentimes side-by-side, reducing interoperability, compromising public safety and economic development opportunities for rural areas.

Reverse Auction Challenges (cont'd)

- Some auction proposals would only conduct auctions in rural wireline incumbent study areas after a wireline competitor builds a network. Today, that is 90 of 1400 study areas. Thus, in most rural areas, the wireline carrier would never face competition, or any incentive to improve efficiency.
- Largest carriers have an incentive to bid near zero to drive out competitors and reduce fund contributions.
- A monopoly provider will have no incentive to deliver high-quality services, especially after "winning" an auction.

Looking ahead – Funding Mechanisms For the 21st Century

- The implementation of full portability would shift the program away from ***fixed wireline voice*** and toward new technologies. Rural carriers have drawn $3 billion per year, $28 billion in the aggregate, at EOY 2008, a significant portion of which supports antiquated technology serving customers that no longer exist.

- FCC has full authority under Sec. 254 to fund broadband and mobility.

- Pending 'band-aid' proposals are not comprehensive reform and are not competitively neutral.